

**REPORT OF THE AUDIT OF THE  
POWELL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE POWELL COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2010**

The Auditor of Public Accounts has completed the audit of the Powell County Fiscal Court for fiscal year ended June 30, 2010. We have issued unqualified opinions on the governmental activities, each major governmental fund, and aggregate remaining fund information of Powell County, Kentucky.

We have disclaimed an opinion on the financial statement of the business-type activities consisting of the Jail Canteen Fund. We determined the risk of fraud to be too high to issue an opinion and were unable to apply other procedures to overcome this risk due to missing and inaccurate records.

We have issued an unqualified opinion on the fiscal court's compliance with OMB Circular A-133 compliance supplement as it relates to the major programs.

#### **Financial Condition:**

The fiscal court had net assets of \$4,137,210 as of June 30, 2010. The fiscal court had unrestricted net assets of \$922,483 in its governmental activities as of June 30, 2010, with total net assets of \$4,164,386. In its business-type activities, total net cash and cash equivalents were \$27,176 with total net assets of \$27,176. The fiscal court had total debt principal as of June 30, 2010 of \$2,028,800 with \$270,700 due within the next year.

#### **Report Comments:**

- 2010-01 \$48,088 Of Missing And Undeposited Receipts Were Noted In The Jail Commissary
- 2010-02 The General And Jail Funds Have Deficits Totaling \$574,898
- 2010-03 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer
- 2010-04 The County Should Pay Invoices Within 30 Working Days
- 2010-05 The County Should Account For Encumbrances Properly
- 2010-06 All Wages Paid Employees Should Be Reported To Proper Agencies And Withholdings Paid Properly
- 2010-07 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2010-08 The Former Jailer Should Have Complied With The State Local Finance Officer Policy Manual
- 2010-09 The Former Jailer Should Have Paid All Fees To County On A Regular Basis
- 2010-10 The Former Jailer Should Have Expended Commissary Profit For The Benefit Of The Prisoner
- 2010-11 The County Should Approve A Salary Schedule
- 2010-12 Part-Time Employees Should Not Receive Full-Time Benefits
- 2010-13 The Former Jailer Failed To Maintain The Financial Activities Over The Operations Of The Jail
- 2010-14 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions
- 2010-15 The County Lacks Adequate Segregation Of Duties Over The Payroll Function
- 2010-16 The Former Jailer Should Have Improved Controls Over Collections For Jail Fees And Inmate Monies
- 2010-17 The Former Jailer Should Have Improved Internal Controls Over Disbursements
- 2010-18 The Former Jailer Should Have Improved Controls Over The Jail Commissary
- 2010-19 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Allowable Costs For The CSEPP Program
- 2010-20 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP Program

**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**POWELL COUNTY FISCAL COURT**  
**For The Fiscal Year Ended June 30, 2010**  
**(Continued)**

**Report Comments: (Continued)**

2010-21 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Procurement, Suspension, And Debarment For The CSEPP Program And Should Comply With KRS 424.260 And Bid All Expenditures Of \$20,000 And Over

**Deposits:**

The fiscal court's deposits were fully insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
POWELL COUNTY OFFICIALS .....	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS .....	8
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	11
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	24
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	28
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	34
NOTES TO FINANCIAL STATEMENTS .....	36
BUDGETARY COMPARISON SCHEDULES .....	54
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	60
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	63
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	67
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	72
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	73
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	76
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	80
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	84
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Darren Farmer, Former Powell County Judge/Executive

Honorable James Potts, Powell County Judge/Executive

Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Powell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Powell County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As further explained in the accompanying Schedule of Findings and Questioned Costs, the former Powell County Jailer did not maintain adequate accounting records of the jail canteen revenues and expenditures for the fiscal year ended June 30, 2010. No receipts or invoices were maintained for September, October, November, and December 2009. Significant deficiencies in the jail's canteen records identified during the engagement and lack of adequate internal controls resulted in a high level of audit risk.

Since the former Powell County Jailer did not maintain all records or adequate accounting ledgers, and we were unable to apply other auditing procedures to satisfy ourselves as to the receipts and disbursements, the scope of our work was not adequate to enable us to express, and we do not express an opinion on the financial statements of the business-type activities and Jail Canteen Fund described in the first paragraph.



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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Powell County, Kentucky, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison schedules are not a required part of the basic financial statement but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison schedules. However, we did not audit the budgetary comparison schedules and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Powell County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2011, on our consideration of Powell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 \$48,088 Of Missing And Undeposited Receipts Were Noted In The Jail Commissary
- 2010-02 The General And Jail Funds Have Deficits Totaling \$574,898
- 2010-03 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer
- 2010-04 The County Should Pay Invoices Within 30 Working Days
- 2010-05 The County Should Account For Encumbrances Properly
- 2010-06 All Wages Paid Employees Should Be Reported To Proper Agencies And Withholdings Paid Properly
- 2010-07 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2010-08 The Former Jailer Should Have Complied With The State Local Finance Officer Policy Manual

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- 2010-09 The Former Jailer Should Have Paid All Fees To County On A Regular Basis
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- 2010-21 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Procurement, Suspension, And Debarment For The CSEPP Program And Should Comply With KRS 424.260 And Bid All Expenditures Of \$20,000 And Over

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

February 7, 2011



POWELL COUNTY OFFICIALS

For The Year Ended June 30, 2010

**Fiscal Court Members:**

Darren Farmer	Former County Judge/Executive
James Potts	County Judge/Executive
Walter Bud Parks	Magistrate
James L. Dennis	Magistrate
Shirley C. Crabtree	Magistrate
Ricky Creed	Magistrate
Bobby Patrick	Magistrate

**Other Elected Officials:**

Robert King	County Attorney
Melvin Rogers	Former Jailer
Rhonda Barnett	County Clerk
Darlene Drake	Circuit Court Clerk
Danny Rogers	Sheriff
Dustin Billings	Property Valuation Administrator
Carl Wells Sr.	Coroner

**Appointed Personnel:**

Connie Crabtree	County Treasurer
Patricia Holland	Occupational Tax Collector

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**POWELL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2010**



**POWELL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2010**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 922,483	\$ 27,176	\$ 949,659
Total Current Assets	922,483	27,176	949,659
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	843,434		843,434
Buildings	2,514,769		2,514,769
Other Equipment	253,966		253,966
Vehicles and Equipment	664,473		664,473
Infrastructure	966,885		966,885
Total Noncurrent Assets	5,243,527		5,243,527
Total Assets	6,166,010	27,176	6,193,186
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	90,000		90,000
Financing Obligations Payable	180,700		180,700
Total Current Liabilities	270,700		270,700
Noncurrent Liabilities:			
Bonds Payable	95,000		95,000
Financing Obligations Payable	1,663,100		1,663,100
Total Noncurrent Liabilities	1,758,100		1,758,100
Total Liabilities	2,028,800		2,028,800
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	3,214,727		3,214,727
Unrestricted	922,483	27,176	949,659
Total Net Assets	\$ 4,137,210	\$ 27,176	\$ 4,164,386

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2010**

**POWELL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,501,416	\$ 130,570	\$ 27,616	\$ 369,842
Protection to Persons and Property	2,157,907	873,598	674,586	
General Health and Sanitation	220,744	62,544	26,214	
Social Services	286,597		275,019	
Recreation and Culture	21,406		36,514	
Roads	467,263		1,200,706	
Airports	6,000			
Debt Service	270,313			
Capital Projects	197,823			
Total Governmental Activities	5,129,469	1,066,712	2,240,655	369,842
Business-type Activities:				
Jail Canteen	120,662	132,631		
Total Business-type Activities	120,662	132,631		
Total Primary Government	\$ 5,250,131	\$ 1,199,343	\$ 2,240,655	\$ 369,842

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**POWELL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (1,343,230)	\$	\$ (1,343,230)
(239,881)		(239,881)
(131,986)		(131,986)
(11,578)		(11,578)
15,108		15,108
733,443		733,443
(6,000)		(6,000)
(270,313)		(270,313)
(197,823)		(197,823)
(1,452,260)		(1,452,260)
	11,969	11,969
	11,969	11,969
(1,452,260)	11,969	(1,440,291)
344,144		344,144
656		656
90,814		90,814
1,656,942		1,656,942
24,725		24,725
68,804		68,804
12,610	221	12,831
2,198,695	221	2,198,916
746,435	12,190	758,625
3,390,775	14,986	3,405,761
\$ 4,137,210	\$ 27,176	\$ 4,164,386

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2010**

**POWELL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2010**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 162,416	\$ 306,875	\$ 45,714	\$ 148,732
Interfund Receivables		253,028		200,000
Total Assets	<u>162,416</u>	<u>559,903</u>	<u>45,714</u>	<u>348,732</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Financing Obligations	330,000			
Interfund Payables			453,028	
Total Liabilities	<u>330,000</u>		<u>453,028</u>	
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	6,242	9,562	19,269	
Unreserved:				
General Fund	(173,826)			
Special Revenue Funds		550,341	(426,583)	348,732
Total Fund Balances	<u>(167,584)</u>	<u>559,903</u>	<u>(407,314)</u>	<u>348,732</u>
Total Liabilities and Fund Balances	<u>\$ 162,416</u>	<u>\$ 559,903</u>	<u>\$ 45,714</u>	<u>\$ 348,732</u>

The accompanying notes are an integral part of the financial statements.

**POWELL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2010**  
**(Continued)**

<b>Ambulance Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 117,553	\$ 141,193	\$ 922,483
		453,028
<u>117,553</u>	<u>141,193</u>	<u>1,375,511</u>

		330,000
		453,028
		<u>783,028</u>

12,870	4,096	52,039
		(173,826)
<u>104,683</u>	<u>137,097</u>	<u>714,270</u>
<u>117,553</u>	<u>141,193</u>	<u>592,483</u>
<u>\$ 117,553</u>	<u>\$ 141,193</u>	<u>\$ 1,375,511</u>

**Reconciliation of the Balance Sheet - Governmental Funds To The Statement Of Net Assets:**

Total Fund Balances	\$ 592,483
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	8,147,337
Depreciation	(2,903,810)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,513,800)
Bonded Debt	<u>(185,000)</u>
Net Assets Of Governmental Activities	<u>\$ 4,137,210</u>

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

**POWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>REVENUES</b>				
Taxes	\$ 1,489,071	\$	\$	\$
In Lieu Tax Payments		59,019		
Excess Fees	24,725			
Intergovernmental	188,015	1,013,178	748,362	265,950
Charges for Services	63,548		19,177	
Miscellaneous	52,960	133,997	60,904	500
Interest	1,911	5,259	519	3,736
Total Revenues	<u>1,820,230</u>	<u>1,211,453</u>	<u>828,962</u>	<u>270,186</u>
<b>EXPENDITURES</b>				
General Government	572,505			13,605
Protection to Persons and Property	26,019	7,433	983,127	15,000
General Health and Sanitation	176,986		38,904	3,000
Social Services	20,500			5,000
Recreation and Culture				2,000
Roads		642,420		217,123
Airports				6,000
Debt Service	16,712		253,601	
Capital Projects		197,823		
Administration	371,618	162,250	180,949	2,954
Total Expenditures	<u>1,184,340</u>	<u>1,009,926</u>	<u>1,456,581</u>	<u>264,682</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>635,890</u>	<u>201,527</u>	<u>(627,619)</u>	<u>5,504</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	199,703	73,450	645,000	
Transfers To Other Funds	(660,600)	(150,197)	(740)	(115,000)
Total Other Financing Sources (Uses)	<u>(460,897)</u>	<u>(76,747)</u>	<u>644,260</u>	<u>(115,000)</u>
Net Change in Fund Balances	174,993	124,780	16,641	(109,496)
Fund Balances - Beginning (Restated)	(342,577)	435,123	(423,955)	458,228
Fund Balances - Ending	<u>\$ (167,584)</u>	<u>\$ 559,903</u>	<u>\$ (407,314)</u>	<u>\$ 348,732</u>

The accompanying notes are an integral part of the financial statements.



**POWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>Ambulance Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 214,117	\$ 1,130	\$ 1,704,318
		59,019
		24,725
113,298	640,623	2,969,426
731,263	37,913	851,901
5,544		253,905
950	235	12,610
<u>1,065,172</u>	<u>679,901</u>	<u>5,875,904</u>
		586,110
907,561	278,943	2,218,083
		218,890
	261,097	286,597
	19,406	21,406
		859,543
		6,000
		270,313
		197,823
<u>152,090</u>	<u>15,285</u>	<u>885,146</u>
<u>1,059,651</u>	<u>574,731</u>	<u>5,549,911</u>
<u>5,521</u>	<u>105,170</u>	<u>325,993</u>
54,288	16,550	988,991
	(62,454)	(988,991)
<u>54,288</u>	<u>(45,904)</u>	
59,809	59,266	325,993
57,744	81,927	266,490
<u>\$ 117,553</u>	<u>\$ 141,193</u>	<u>\$ 592,483</u>

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**



**POWELL COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds	\$	325,993
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		591,427
Depreciation Expense		(341,068)
Disposal Of Asset Held For Resale		(102,655)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Payments		187,738
Bond Payments		<u>85,000</u>

Change in Net Assets of Governmental Activities	\$	<u><u>746,435</u></u>
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**POWELL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2010**





**POWELL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2010**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 27,176
Total Assets	<u>27,176</u>
<b>Net Assets</b>	
Unrestricted	27,176
Total Net Assets	<u><u>\$ 27,176</u></u>

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

**POWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 132,631
Total Operating Revenues	<u>132,631</u>
<b>Operating Expenses</b>	
Cost of Sales	89,987
Sales Tax	6,296
Total Operating Expenses	<u>96,283</u>
Operating Income (Loss)	<u>36,348</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	221
Inmate Pay From State	(3,000)
Inmate Refunds	<u>(21,379)</u>
Total Nonoperating Revenues (Expenses)	<u>(24,158)</u>
Change In Net Assets	12,190
Total Net Assets - Beginning	<u>14,986</u>
Total Net Assets - Ending	<u><u>\$ 27,176</u></u>

The accompanying notes are an integral part of the financial statements.

**POWELL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**



**POWELL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers for Sales	\$ 132,631
Payments to Vendors	(89,987)
Sales tax	(6,296)
Net Cash Provided By Operating Activities	<u>36,348</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay From State	(3,000)
Inmate Refunds on Accounts	(21,379)
Net Cash Provided By Noncapital Financing Activities	<u>(24,379)</u>
<b>Cash Flows From Investing Activities</b>	
Interest Earned	<u>221</u>
Net Cash Provided By Investing Activities	<u>221</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,190
Cash and Cash Equivalents - July 1	<u>14,986</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 27,176</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	36
NOTE 2.	DEPOSITS .....	41
NOTE 3.	CAPITAL ASSETS.....	42
NOTE 4.	SHORT-TERM DEBT/ASSETS HELD FOR RESALE .....	43
NOTE 5.	LONG-TERM DEBT .....	43
NOTE 6.	INTEREST ON LONG-TERM DEBT .....	47
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM .....	48
NOTE 8.	DEFERRED COMPENSATION .....	48
NOTE 9.	INSURANCE .....	49
NOTE 10.	TRANSFERS FROM RESTRICTED FUNDS .....	49
NOTE 11.	PRIOR PERIOD ADJUSTMENTS .....	49
NOTE 12.	UNRESERVED FUND BALANCE - DEFICIT .....	50
NOTE 13.	RELATED PARTY TRANSACTIONS.....	50



**POWELL COUNTY  
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet-Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Powell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of GASB 14, there are no component units which merit consideration as part of the reporting entity.

**C. Powell County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Powell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Powell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Powell County Elected Officials (Continued)**

- County Sheriff
- Property Valuation Administrator

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The purpose of this fund is to account for the revenues and expenditures of the ambulance service operations.

The primary government also has the following non-major funds: CSEPP Fund, Disaster and Emergency Services Fund, Forest Fire Fund, Homeland Security Fund, Disaster Recovery Fund, Nature Preserve Fund, Generations Center Fund, Grants Fund, and Nada Housing Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, LGEA Fund, Ambulance Fund, CSEPP Fund, Disaster and Emergency Services Fund, Forest Fire Fund, Homeland Security Fund, Disaster Recovery Fund, Nature Preserve Fund, Generations Center Fund, Grants Fund, and Nada Housing Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-5
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Jail Canteen Fund. The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County’s deposits may not be returned. The County does not have a policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

Depreciation expense was charged to functions of the primary government as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 843,434	\$	\$	\$ 843,434
Total Capital Assets Not Being Depreciated	843,434			843,434
Capital Assets, Being Depreciated:				
Buildings	4,156,049			4,156,049
Other Equipment	349,517	82,455		431,972
Vehicles and Equipment	1,250,752	203,293		1,454,045
Infrastructure	956,158	305,679		1,261,837
Total Capital Assets Being Depreciated	6,712,476	591,427		7,303,903
Less Accumulated Depreciation For:				
Buildings	(1,551,017)	(90,263)		(1,641,280)
Other Equipment	(142,153)	(35,853)		(178,006)
Vehicles and Equipment	(653,330)	(136,242)		(789,572)
Infrastructure	(216,242)	(78,710)		(294,952)
Total Accumulated Depreciation	(2,562,742)	(341,068)		(2,903,810)
Total Capital Assets, Being Depreciated, Net	4,149,734	250,359		4,400,093
Governmental Activities Capital Assets, Net	<u>\$ 4,993,168</u>	<u>\$ 250,359</u>	<u>\$ 0</u>	<u>\$ 5,243,527</u>
<u>Governmental Activities:</u>				
General Government			\$ 30,160	
Protection to Persons and Property			192,396	
General Health and Sanitation			1,854	
Roads, Including Depreciation of General Infrastructure Assets			<u>116,658</u>	
Total Depreciation Expense - Governmental Activities			\$ 341,068	

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 4. Short-term Debt/Assets Held For Resale**

A. On June 11, 2008, the Powell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$102,655 for the purpose of purchasing road equipment. The road equipment was purchased to use for one year, then will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement was renewed for the fiscal year. The agreement requires monthly interest payments beginning on July 20, 2008 at a rate of 3.952%. One principal payment is due on September 20, 2009. As of June 30, 2010, the lease was paid in full.

B. Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
Financing Obligations	\$ 102,655	\$	\$ 102,655	\$	\$
Business-type Activities					
Short-term Liabilities	\$ 102,655	\$ 0	\$ 102,655	\$ 0	\$ 0

**Note 5. Long-term Debt**

**A. General Obligation Public Project Bonds, Series 2001**

On August 9, 2001, the fiscal court issued \$780,000 of General Obligation Public Project Bonds, Series 2001, for road projects. The bonds require that semiannual interest payments be made on February 1 and August 1 of each year commencing on February 1, 2002. One principal payment will be due on August 1 of each year commencing August 1, 2002. The bonds will mature August 1, 2011. General obligation bonds are direct obligations and pledge full faith and credit of the government. As of June 30, 2010, principal outstanding was \$185,000. Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 90,000	\$ 6,300
2012	95,000	2,138
Totals	\$ 185,000	\$ 8,438



**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Kentucky Local Correctional Facilities Construction Authority**

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The KLCFCA issued \$510,503 of revenue bonds at various interest rates, of which the county has agreed to pay \$262,452 principal and proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2010, totaled \$78,781. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 13,724	\$ 4,970
2012	14,672	3,989
2013	15,686	2,940
2014	16,770	1,818
2015	17,929	619
Totals	<u>\$ 78,781</u>	<u>\$ 14,336</u>

**C. Refinancing And Expansion Of Existing Detention Facility**

On July 3, 2003, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$475,000 for the purpose of refinancing and expansion of the existing detention facility. The agreement requires monthly payments of \$3,221 for 240 months to be paid in full on July 3, 2023. As of June 30, 2010, the principal balance outstanding was \$367,375. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	20,204	18,447
2012	21,270	17,382
2013	22,392	16,260
2014	23,572	15,079
2015	24,815	13,836
2016-2020	145,143	48,117
2021-2024	109,979	9,199
Totals	<u>\$ 367,375</u>	<u>\$ 138,320</u>

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**D. Improvements To Detention Facility**

On January 7, 2005, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$495,000 for the purpose of financing the improvements to the detention facility. The agreement requires monthly payments of \$3,308 for 240 months to be paid in full on January 7, 2025. As of June 30, 2010, the principal balance outstanding was \$406,484. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	19,211	20,485
2012	20,224	19,472
2013	21,290	18,405
2014	22,413	17,283
2015	23,595	16,101
2016-2020	138,002	60,475
2021-2025	161,749	20,187
Totals	<u>\$ 406,484</u>	<u>\$ 172,408</u>

**E. Detention Facility Improvements And Expansion**

On June 15, 2005, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$300,000 for improvements to the existing detention facility and the conversion of the existing senior citizens center to a holding facility for class D felons. The agreement requires monthly payments of \$2,064 for 240 months to be paid in full on June 15, 2025. As of June 30, 2010, the principal balance outstanding was \$252,564. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	11,151	13,613
2012	11,780	12,984
2013	12,445	12,319
2014	13,147	11,617
2015	13,888	10,876
2016-2020	82,115	41,705
2021-2025	108,038	15,780
Totals	<u>\$ 252,564</u>	<u>\$ 118,894</u>

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**F. Detention Facility Improvements And Expansion**

On October 2, 2006, the Powell County Fiscal Court entered into a financing agreement with People's Exchange Bank to borrow \$475,000 for the purpose of financing the improvements to the detention facility. The agreement requires monthly principal and interest payments beginning November 1, 2006, at a rate of 5%, with the full amount to be paid in full on October 1, 2016. As of June 30, 2010, the principal balance outstanding was \$408,596. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	16,410	22,799
2012	17,337	21,873
2013	18,315	20,897
2014	19,347	19,861
2015	20,438	18,772
2016-2017	316,749	23,226
Totals	<u>\$ 408,596</u>	<u>\$ 127,428</u>

**G. Improvements and General Operating**

On June 29, 2007, Powell County Fiscal Court entered into a \$500,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust for the purpose of refinancing a short-term note and for the purpose of acquiring and financing certain improvements. The agreement requires variable monthly interest payments and yearly principal payments with the full amount to be paid in full on January 20, 2013. The principal balance of the agreement was \$330,000 as of June 30, 2010. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 105,000	\$ 12,236
2012	110,000	7,954
2013	115,000	3,059
Totals	<u>\$ 330,000</u>	<u>\$ 23,249</u>

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**H. Tractor**

On September 27, 2006, Powell County Fiscal Court entered into a \$30,000 financing obligation agreement with the AGCO Finance, LLC for the purpose of acquiring a tractor. The agreement requires monthly principal and interest payments with the full amount to be paid in full on September 27, 2009. As of June 30, 2010, the agreement was paid in full.

**I. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 270,000	\$	\$ 85,000	\$ 185,000	\$ 90,000
Financing Obligations	<u>2,028,883</u>		<u>185,083</u>	<u>1,843,800</u>	<u>180,700</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 2,298,883</u>	<u>\$</u>	<u>\$ 270,083</u>	<u>\$ 2,028,800</u>	<u>\$ 270,700</u>

**Note 6. Interest on Long-term Debt**

Debt Service on the Statement of Activities includes \$98,291 in interest on financing obligations and \$10,184 in interest on general obligation bonds.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

The County's required contributions for pension obligations to CERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$291,549, \$245,406, \$302,650, respectively, which represents 100% of contributions due for fiscal years 2010, 2009, and 2008.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Deferred Compensation**

The Powell County Fiscal Court participates in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 9. Insurance**

For the fiscal year ended June 30, 2010, Powell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Transfers From Restricted Funds**

Over the past several years the county has been transferring restricted money from the Road Fund and LGEA Fund to the General and Jail Funds. The county has repaid a portion of this money using various methods. As of June 30, 2010, the Jail Fund owes the Road Fund \$253,028 and the Jail Fund owes the LGEA Fund \$200,000.

Due From	Due To	July 1, 2009	Increase/ (Decrease)	June 30, 2010
Jail	Road	\$ 253,028	\$	\$ 253,028
Jail	LGEA	200,000		200,000
LGEA	Road	70,000	(70,000)	
DES	Road	1,250	(1,250)	
		<u>\$ 524,278</u>	<u>\$ (71,250)</u>	<u>\$ 453,028</u>

**Note 11. Prior Period Adjustments**

The beginning net asset balance as of June 30, 2009, for governmental activities of Powell County Fiscal Court has been restated. We have increased Governmental Activities, the General Fund by \$408, the Jail Fund by \$163, the LGEA Fund by \$1,000, the Ambulance Fund by \$8,998, and the Disaster and Emergency Services Fund by \$320 due to prior year voided checks. Total beginning net asset balance restated as of June 30, 2010 is \$3,390,775.

**POWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Continued)**

**Note 12. Unreserved Fund Balance - Deficit**

As of June 30, 2010, the General Fund had a deficit fund balance in the amount of \$167,584. This deficit was due to borrowing for operating expenses.

As of June 30, 2010, the Jail Fund had a deficit fund balance in the amount of \$407,314. This deficit was due to transfers from restricted funds (see note 10 above), and the resulting interfund payables as well as the unpaid obligations.

	General	Jail	Total
Cash Balance	\$ 162,416	\$ 45,714	\$ 208,130
Interfund Payables		(453,028)	(453,028)
Financing Obligations	(330,000)		(330,000)
Fund Balance	<u>\$ (167,584)</u>	<u>\$ (407,314)</u>	<u>\$ (574,898)</u>

**Note 13. Related Party Transactions**

The fiscal court purchased three trucks from Tanner Dodge for \$67,293. The owner is the cousin of Darren Farmer, Judge/Executive.

The fiscal court expended \$2,039 for supplies from Stanton Electronics. Stanton Electronics is owned by the son of James Dennis, a magistrate of Powell County Fiscal Court.

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**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**



**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,446,000	\$ 1,446,000	\$ 1,489,071	\$ 43,071
In Lieu Tax Payments		23,308		(23,308)
Excess Fees	17,750	17,750	24,725	6,975
Licenses and Permits	1,000	1,000		(1,000)
Intergovernmental Revenue	135,300	152,565	188,015	35,450
Charges for Services	61,350	61,350	63,548	2,198
Miscellaneous	27,800	38,653	52,960	14,307
Interest	600	600	1,911	1,311
Total Revenues	<u>1,689,800</u>	<u>1,741,226</u>	<u>1,820,230</u>	<u>79,004</u>
<b>EXPENDITURES</b>				
General Government	573,011	626,056	572,505	53,551
Protection to Persons and Property	30,000	31,934	26,019	5,915
General Health and Sanitation	194,803	207,112	176,986	30,126
Social Services	20,500	20,500	20,500	
Debt Service	101,500	116,715	116,712	3
Administration	412,770	463,708	371,618	92,090
Total Expenditures	<u>1,332,584</u>	<u>1,466,025</u>	<u>1,284,340</u>	<u>181,685</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>357,216</u>	<u>275,201</u>	<u>535,890</u>	<u>(260,689)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds				
Transfers From Other Funds	150,369	150,369	199,703	(49,334)
Transfers To Other Funds	<u>(512,585)</u>	<u>(512,585)</u>	<u>(660,600)</u>	<u>148,015</u>
Total Other Financing Sources (Uses)	<u>(362,216)</u>	<u>(362,216)</u>	<u>(460,897)</u>	<u>98,681</u>
Net Changes in Fund Balance	(5,000)	(87,015)	74,993	162,008
Fund Balance - Beginning	<u>5,000</u>	<u>87,015</u>	<u>87,423</u>	<u>408</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 162,416</u>	<u>\$ 162,416</u>

**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

**Reconciliation of the Budgetary Comparison Schedule to Statement of  
Revenues, Expenditures, and Changes in Fund Balances**

Total Expenditures	\$ 1,284,340
Payment on Short-term debt principal not included in Statement of Revenues, Expenditures and Changes in Fund Balance:	<u>(100,000)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ 1,184,340</u>
 Fund Balance - Ending	 \$ 162,416
Short-term debt financing not included in Statement of Revenues, Expenditures and Changes in Fund Balance:	<u>(330,000)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ (167,584)</u>

**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 60,000	\$ 60,000	\$ 59,019	\$ (981)
Intergovernmental Revenue	825,515	964,069	1,013,178	49,109
Miscellaneous	14,000	104,425	133,997	29,572
Interest	4,700	4,700	5,259	559
Total Revenues	904,215	1,133,194	1,211,453	78,259
<b>EXPENDITURES</b>				
Protection to Persons and Property	20,000	20,000	7,433	12,567
General Health and Sanitation	500	500		500
Transportation Facilities and Services	2,000	2,000		2,000
Roads	664,689	789,243	642,420	146,823
Debt Service	105,000	207,725	197,823	9,902
Administration	179,021	180,721	162,250	18,471
Total Expenditures	971,210	1,200,189	1,009,926	190,263
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(66,995)	(66,995)	201,527	268,522
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	20,000	20,000	73,450	53,450
Transfers To Other Funds	(150,369)	(150,369)	(150,197)	172
Total Other Financing Sources (Uses)	(130,369)	(130,369)	(76,747)	53,622
Net Changes in Fund Balance	(197,364)	(197,364)	124,780	322,144
Fund Balance - Beginning	197,364	197,364	182,095	(15,269)
Fund Balance - Ending	\$ 0	\$ 0	\$ 306,875	\$ 306,875
<b>Reconciliation of the Budgetary Comparison Schedule to Statement of Revenues, Expenditures, and Changes in Fund Balances</b>				
Fund Balance - Ending			\$ 306,875	
Restricted Transfers Receivable			253,028	
Fund Balance - Ending - Modified Cash Basis			\$ 559,903	

**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis )	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 984,279	\$ 984,279	\$ 748,362	\$ (235,917)
Charges for Services	31,150	31,150	19,177	(11,973)
Miscellaneous	74,500	74,500	60,904	(13,596)
Interest	300	300	519	219
Total Revenues	1,090,229	1,090,229	828,962	(261,267)
EXPENDITURES				
Protection to Persons and Property	972,300	1,023,767	983,127	40,640
General Health and Sanitation	51,463	51,463	38,904	12,559
Debt Service	263,821	258,066	253,601	4,465
Administration	222,230	205,091	180,949	24,142
Total Expenditures	1,509,814	1,538,387	1,456,581	81,806
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(419,585)	(448,158)	(627,619)	(179,461)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	419,085	419,085	645,000	225,915
Transfers To Other Funds			(740)	(740)
Total Other Financing Sources (Uses)	419,085	419,085	644,260	225,175
Net Changes in Fund Balance	(500)	(29,073)	16,641	45,714
Fund Balance - Beginning	500	29,073	29,073	
Fund Balance - Ending	\$ 0	\$ 0	\$ 45,714	\$ 45,714
Reconciliation of the Budgetary Comparison Schedule to Statement of Revenues, Expenditures, and Changes in Fund Balances				
Fund Balance - Ending			\$ 45,714	
Restricted Transfers Payable			(453,028)	
Fund Balance - Ending - Modified Cash Basis			\$ (407,314)	

**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 273,100	\$ 273,100	\$ 265,950	\$ (7,150)
Miscellaneous	5,000	5,000	500	(4,500)
Interest	2,000	2,000	3,736	1,736
Total Revenues	280,100	280,100	270,186	(9,914)
<b>EXPENDITURES</b>				
General Government	14,993	14,993	13,605	1,388
Protection to Persons and Property	15,000	15,000	15,000	
General Health and Sanitation	15,500	15,500	3,000	12,500
Social Services	5,000	5,000	5,000	
Recreation and Culture	2,000	2,000	2,000	
Roads	96,514	234,514	217,123	17,391
Airports	6,000	6,000	6,000	
Administration	90,093	170,321	2,954	167,367
Total Expenditures	245,100	463,328	264,682	198,646
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	35,000	(183,228)	5,504	188,732
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	10,000	10,000		(10,000)
Transfers To Other Funds	(85,000)	(85,000)	(115,000)	(30,000)
Total Other Financing Sources (Uses)	(75,000)	(75,000)	(115,000)	(40,000)
Net Changes in Fund Balances	(40,000)	(258,228)	(109,496)	148,732
Fund Balances - Beginning	40,000	258,228	258,228	
Fund Balances - Ending	\$ 0	\$ 0	\$ 148,732	\$ 148,732

**Reconciliation of the Budgetary Comparison Schedule to Statement of  
Revenues, Expenditures, and Changes in Fund Balances**

Fund Balance - Ending	\$ 148,732
Restricted Transfers Receivable	200,000
Fund Balance - Ending - Modified Cash Basis	<u>\$ 348,732</u>

**POWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>AMBULANCE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 215,000	\$ 215,000	\$ 214,117	\$ (883)
Intergovernmental Revenues	101,000	101,000	113,298	12,298
Charges for Services	801,000	801,000	731,263	(69,737)
Miscellaneous	2,000	2,000	5,544	3,544
Interest	500	500	950	450
Total Revenues	<u>1,119,500</u>	<u>1,119,500</u>	<u>1,065,172</u>	<u>(54,328)</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,000,500	1,023,315	907,561	115,754
Administration	258,000	292,429	152,090	140,339
Total Expenditures	<u>1,258,500</u>	<u>1,315,744</u>	<u>1,059,651</u>	<u>256,093</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(139,000)</u>	<u>(196,244)</u>	<u>5,521</u>	<u>201,765</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	138,500	138,500	54,288	(84,212)
Total Other Financing Sources (Uses)	<u>138,500</u>	<u>138,500</u>	<u>54,288</u>	<u>(84,212)</u>
Net Changes in Fund Balances	(500)	(57,744)	59,809	117,553
Fund Balances - Beginning	<u>500</u>	<u>57,744</u>	<u>57,744</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,553</u>	<u>\$ 117,553</u>



**POWELL COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2010**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**POWELL COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2010**

**POWELL COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2010**

	<b>CSEPP Fund</b>	<b>Disaster And Emergency Services Fund</b>	<b>Forest Fire Fund</b>	<b>Homeland Security Fund</b>	<b>Disaster Recovery Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 49,551	\$ 48	\$ 446	\$ 6,786	\$ 7,015
Total Assets	<u>49,551</u>	<u>48</u>	<u>446</u>	<u>6,786</u>	<u>7,015</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	4,096				
Unreserved:					
Special Revenue Funds	<u>45,455</u>	<u>48</u>	<u>446</u>	<u>6,786</u>	<u>7,015</u>
Total Fund Balances	<u>\$ 49,551</u>	<u>\$ 48</u>	<u>\$ 446</u>	<u>\$ 6,786</u>	<u>\$ 7,015</u>

The accompanying notes are an integral part of the financial statements.

**POWELL COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2010**  
**(Continued)**

<b>Nature Preserve Fund</b>	<b>Generations Center Fund</b>	<b>Grants Fund</b>	<b>Nada Housing Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 38,598	\$ 15,000	\$ 9,827	\$ 13,922	\$ 141,193
38,598	15,000	9,827	13,922	141,193
				4,096
38,598	15,000	9,827	13,922	137,097
\$ 38,598	\$ 15,000	\$ 9,827	\$ 13,922	\$ 141,193

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2010**

**POWELL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2010**

	<b>CSEPP Fund</b>	<b>Disaster And Emergency Services Fund</b>	<b>Forest Fire Fund</b>	<b>Homeland Security Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$	\$ 1,130	\$
Intergovernmental	310,908	722		10,853
Charges for Services				37,913
Interest				
Total Revenues	<u>310,908</u>	<u>722</u>	<u>1,130</u>	<u>48,766</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	266,114	9,232	3,047	550
Social Services				
Recreation and Culture				
Administration	14,755	530		
Total Expenditures	<u>280,869</u>	<u>9,762</u>	<u>3,047</u>	<u>550</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>30,039</u>	<u>(9,040)</u>	<u>(1,917)</u>	<u>48,216</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	3,150	13,400		
Transfers To Other Funds	(8,588)	(5,100)		(48,766)
Total Other Financing Sources (Uses)	<u>(5,438)</u>	<u>8,300</u>		<u>(48,766)</u>
Net Change in Fund Balances	24,601	(740)	(1,917)	(550)
Fund Balances - Beginning (Restated)	24,950	788	2,363	7,336
Fund Balances - Ending	<u>\$ 49,551</u>	<u>\$ 48</u>	<u>\$ 446</u>	<u>\$ 6,786</u>

The accompanying notes are an integral part of the financial statements.



**POWELL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>Disaster Recovery Fund</b>	<b>Nature Preserve Fund</b>	<b>Generations Center Fund</b>	<b>Grants Fund</b>	<b>Nada Housing Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$	\$	\$	\$
6,607	36,514			275,019	1,130
					640,623
					37,913
	235				235
<u>6,607</u>	<u>36,749</u>			<u>275,019</u>	<u>679,901</u>
					278,943
				261,097	261,097
	19,406				19,406
					15,285
	<u>19,406</u>			<u>261,097</u>	<u>574,731</u>
<u>6,607</u>	<u>17,343</u>			<u>13,922</u>	<u>105,170</u>
					16,550
					(62,454)
					(45,904)
6,607	17,343			13,922	59,266
408	21,255	15,000	9,827		81,927
<u>\$ 7,015</u>	<u>\$ 38,598</u>	<u>\$ 15,000</u>	<u>\$ 9,827</u>	<u>\$ 13,922</u>	<u>\$ 141,193</u>

The accompanying notes are an integral part of the financial statements.

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**POWELL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**POWELL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2010**

**Federal Grantor**

**Program Title**

**Grant Name (CFDA #)**

**Pass-Through**  
**Grantor's Number      Expenditures**

U.S. Department of Homeland Security

*Passed Through KY Office of Homeland Security*

Disaster Grants - Public Assistance (Presidentially Declared Disasters)

(CFDA # 97.036)

1818-DR-KY      \$      7,433

Homeland Security Grant Program

(CFDA # 97.067)

Not available      38,385      \*

*Passed Through KY Division Of Emergency Management*

Chemical Stockpile Emergency Preparedness Program

(CFDA # 97.040)

Not available      280,869      \*

Total U.S. Department of Homeland Security

326,687

U.S. Department of Housing and Urban Development

*Passed Through Governor's Office for Local Development*

Community Development Block Grant -

Nada Tunnel Road Housing Project

(CFDA # 14.228)

Not available      261,097

**TOTAL EXPENDITURES OF FEDERAL AWARDS**

**\$      587,784**

\* Tested as Major Program.

**POWELL COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2010**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Powell County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darren Farmer, Former Powell County Judge/Executive  
The Honorable James Potts, Powell County Judge/Executive  
Members of the Powell County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 7, 2011, wherein we disclaimed an opinion on the business-type activities and Jail Canteen Fund because the former Jailer failed to maintain adequate accounting records and lacked adequate internal controls resulting in high audit risk and fraud risk. Powell County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Powell County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Powell County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Powell County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-13, 2010-14, 2010-15, 2010-16, 2010-17, and 2010-18 to be material weaknesses.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2010-01, 2010-02, 2010-03, 2010-04, 2010-05, 2010-06, 2010-07, 2010-08, 2010-09, 2010-10, 2010-11, 2010-12, and 2010-21.

The former Powell County Judge/Executive's and former Powell County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Judge/Executive's and Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Department for Local Government, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

February 7, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Darren Farmer, Former Powell County Judge/Executive  
The Honorable James Potts, Powell County Judge/Executive  
Members of the Powell County Fiscal Court

**Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program  
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

**Independent Auditor's Report**

**Compliance**

We have audited the compliance of Powell County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Powell County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Powell County's management. Our responsibility is to express an opinion on Powell County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Powell County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Powell County's compliance with those requirements.

In our opinion, Powell County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, that are required to be reported in accordance with OMB Circular A-133 and which are disclosed in the accompany schedule of findings and questioned costs as items 2010-19, 2010-20, and 2010-21.



Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program  
And On Internal Control Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Powell County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Powell County internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Powell County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-19, 2010-20, and 2010-21 to be material weaknesses.

The former Powell County Judge/Executive's and former Powell County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Judge/Executive's and Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 7, 2011

**POWELL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2010**





**POWELL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2010**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information of Powell County. The auditor's report expresses a disclaimer of opinion on the financial statements of the business-type activities and the Jail Canteen fund.
2. Six material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Thirteen instances of noncompliance material to the financial statements of Powell County were disclosed during the audit.
4. Three material weaknesses relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Powell County expresses an unqualified opinion.
6. There are three findings relative to the major federal awards programs for Powell County reported in Part C of this schedule.
7. The programs tested as major programs were: Chemical Stockpile Emergency Preparedness Program (CFDA#97.040) and Homeland Security Grant Program (CFDA# 97.067).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Powell County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**STATE LAWS AND REGULATIONS:**

**2010-01    \$48,088 Of Missing And Undeposited Receipts Were Noted In The Jail Commissary**

As also noted in the prior year audit, based on the available records, auditors identified \$48,088 of missing and undeposited receipts in the jail commissary. Of this amount, \$6,014 of collections was not deposited into the bank for April 1, 2009 through June 30, 2009. The remaining \$39,102 of collections was not deposited into the bank for July 1, 2009 through February 26, 2010. In addition, \$2,972 of cash collections for booking and bond/release fees were not brought to the county and are still due them. On February 25, 2010, \$9,318 of cash, checks and money orders was recovered from a deputy jailer's car under a spare tire, leaving \$29,784 still missing. Based on information gathered, of these undeposited receipts \$30,391 is due the county for unpaid booking and bond/release fees, the remaining \$17,697 is commissary profits to be used for the inmates.

The former Jailer should have ensured that all collections for each business day be deposited intact daily and then reconciled to the daily checkout and the receipts journal. The receipts journal should have a column for each category of receipts and a grand total for each business day. Any discrepancies between the daily checkout sheets and receipts journal to the bank deposits should have been investigated and explained.

*Former County Jailer Melvin Rogers' Response: I contacted KSP immediately when I became aware of this situation. Also, I contracted with Swanson for a computer system that better enables us to account for inmate moneys properly.*

POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-02 The General And Jail Funds Have Deficits Totaling \$574,898

The Powell County Fiscal Court transferred restricted money from the Road and the Local Government Economic Assistance (LGEA) funds to the Jail fund. The County has repaid a portion of the money. A schedule of transfers from restricted accounts and calculation of deficit fund balances is as follows:

Due From	Due To	July 1, 2009	Increase/ (Decrease)	June 30, 2010
Jail	Road	\$ 253,028	\$	\$ 253,028
Jail	LGEA	200,000		200,000
LGEA	Road	70,000	(70,000)	
DES	Road	1,250	(1,250)	
		<u>\$ 524,278</u>	<u>\$ (71,250)</u>	<u>\$ 453,028</u>
		<u>General</u>	<u>Jail</u>	<u>Total</u>
Cash Balance		\$ 162,416	\$ 45,714	\$ 208,130
Interfund Payables			(453,028)	(453,028)
Financing Obligations		(330,000)		(330,000)
Fund Balance		<u>\$ (167,584)</u>	<u>\$ (407,314)</u>	<u>\$ (574,898)</u>

KRS 42.455 (2), (3) and (4) specifically prohibits the expenditure of LGEA funds for administration of the government and states coal impact counties must expend 100% of funds in transportation. The fiscal court used a portion of the coal impact funds for expenditures other than transportation. These non-allowable expenditures are due back to the LGEA Fund to be expended for transportation. Also, the Road Fund is restricted for transportation, with the exception of the amount calculated on the Road Fund Allocation Worksheet. The expenditures exceeded the budgeted amount that could be used for purposes other than transportation during the fiscal year. As a result, the Road Fund is due the amount that was expended in excess of the allowable allocation.

We recommend that the fiscal court seek guidance from the Department for Local Government and the County Attorney on the necessary actions to be taken to eliminate deficit fund balances.

*Former County Judge/Executive Darren Farmer's Response: The deficits were decreased by nearly \$300,000. The county will continue to reduce this deficit.*

POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-03 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer

The Fiscal Court is required to submit a quarterly report to the State Local Finance Officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all receipts to date, transfers, borrowed money as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. The following was noted relating to the 4<sup>th</sup> quarterly report submitted to the State Local Finance Officer:

- No encumbrances were reported.
- \$9,056 of ambulance fund expenditures were not included in the appropriation condition report; however, these were included in total expenditures on the summary and reconciliation page.
- The original budget amounts were not accurate. Original budgeted expenditures were overstated by \$15,000 in the General fund and by \$1,000,000 in the Nada Housing Fund.

By not accurately completing the 4<sup>th</sup> quarter financial report, the Fiscal Court could not properly monitor receipts and expenditures to manage the County appropriately. We recommend the Fiscal Court review the State Local Finance Officer policy manual to ensure proper recording and reporting of receipts and disbursements of the County.

*Former County Judge/Executive Darren Farmer's Response: We will correct this in the future.*

2010-04 The County Should Pay Invoices Within 30 Working Days

During the course of our audit, we found that out of the 74 expenditures tested, 4 invoices were not paid in a timely manner. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend that the county comply with KRS 65.140, by paying invoices within thirty (30) working days.

*Former County Judge/Executive Darren Farmer's Response: We will pay bills when funds permit.*

2010-05 The County Should Account For Encumbrances Properly

The County did not report any encumbrances on the fourth quarter financial statement that was provided to the Department of Local Government (DLG) and auditors. We recommend the county report all encumbrances by including all outstanding liabilities at the end of the fiscal year on the fourth quarter financial statement. They should maintain a list of these encumbrances and the county should not encumber more than the available cash balance in each fund.

*Former County Judge/Executive Darren Farmer's Response: We will correct this in the future.*

POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-06 All Wages Paid Employees Should Be Reported To Proper Agencies And Withholdings Paid Properly

Two employees were paid \$1,500 each for administrative support from the CSEPP fund. These wages were not reported to appropriate agencies and were not included on the employees' W-2s. No federal, state, or local taxes were withheld from this support payment and it has not been reported to the Internal Revenue Service (IRS) or the Kentucky Department of Revenue.

Since the administrative duties are already a part of their job duties, the employees should not be paid extra for these duties. The \$3,000 administrative support from the CSEPP fund should be transferred to the General fund to reimburse it for their salaries. If the county wants to continue paying this to the employees, it should increase their salaries.

Also, an employee at the Powell County Jail was paid \$925 in checks from the jail commissary account during fiscal year ended June 30, 2010. Normally, all employee wages are paid by the payroll clerk located in the County Judge/Executive's office. However, this \$925 was not reported to the payroll clerk. No federal, state, or local taxes were withheld from this salary and it has not been reported to the Internal Revenue Service (IRS) or the Kentucky Department of Revenue.

We recommend the county report all income for all employees to the proper authorities, federal, state and local agencies. We also recommend that the county ensure the employees' W-2 include all funds paid to them during calendar year 2009.

We will refer this matter to the Internal Revenue Service and the Kentucky Department of Revenue for review.

*Former County Judge/Executive Darren Farmer's Response: This issue has been corrected for FY 2010-2011.*

*Former County Jailer Melvin Rogers' Response: As soon as I became aware of this, it was stopped.*

2010-07 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. However, we could not find where the Fiscal Court performed this review. We recommend that the Fiscal Court review the Administrative Code, Ethics Code and Personnel Policy and then make necessary changes and modifications as appropriate. The review of the Administrative Code should be reflected in the minutes of the Fiscal Court.

*Former County Judge/Executive Darren Farmer's Response: Will advise new administration to review the administrative code and make proper changes.*

POWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2010  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-08 The Former Jailer Should Have Complied With The State Local Finance Officer Policy Manual

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The former Jailer did not comply with the State Local Finance Officer Policy Manual. Daily deposits were not made. Checkouts were not prepared daily. The former Jailer did not maintain a receipt journal that included all receipts collected separated into appropriate categories for the Jail Commissary. No disbursements journal was maintained. The jail commissary summary and reconciliation was not accurate and did not agree to the bank. The total receipts and disbursements per the bank was more than the financial by \$88,527 in receipts and \$88,747 in expenditures.

Based on the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210, the jailer should maintain daily checkout sheets, jail commissary receipts journal, jail commissary disbursements journal and jail commissary summary and reconciliation. Daily deposits are required. At the end of each business day, receipts should be separated into categories listed on the checkout. The total of each category should be entered in the appropriate space provided. The daily checkout total should equal the amount of money on hand at the end of each day less startup cash. A maximum of fifty dollars shall be used for startup for the business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. When total collections match the total cash on hand, then receipts should be posted to the jail commissary receipts journal on a daily basis. The total amount category should agree with the deposited amount on the daily checkout sheet. Each check written must be posted to the proper category listed, such as inmate account refund, entertainment expenses, state payroll, other expenses and inventory. Checks should be issued for all expenditures. The year to date summary section should be compiled using totals from the receipts and disbursements journals.

The former Jailer should have complied with the State Local Finance Officer Policy Manual and maintained daily checkout sheets, jail commissary receipts journal, jail commissary disbursements journal, and a jail commissary summary and reconciliation.

*Former County Jailer Melvin Rogers' Response: No response.*

2010-09 The Former Jailer Should Have Paid All Fees To County On A Regular Basis

The jail collects cash from inmates and inmates' families to pay for booking fees, bond/release fees and housing fees as well as to purchase items from the jail commissary. Based on the Mugshot reports (computer reports) for fiscal year 2009, \$22,015 was collected for booking and bond/release fees and should have been paid by check to the county. However, only \$9,726 was paid by check to the fiscal court, leaving \$12,289 due the county for fiscal year 2009. Based on the Mugshot reports for July 1, 2009 through February 26, 2010, \$24,145 was collected for booking and bond/release fees and should have been paid by check to the county. However, only \$9,013 was paid by check to the fiscal court, leaving \$15,132 due the county for July 1, 2009 through February 26, 2010. These fees were unpaid due to the undeposited receipts as noted in comment 2010-01. After February 8, 2010, the jail contracted with Swanson for the commissary and maintaining the inmate accounts. Based on the reports prepared by Swanson system, all fees collected were paid to the county monthly.

POWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2010  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-09 The Former Jailer Should Have Paid All Fees To County On A Regular Basis (Continued)

We compiled cash amounts collected per the inmate booking and bond/release fees account sheets and compared them to the amount of cash turned into the county for the period of February 24, 2009 through June 22, 2009. Of the \$15,730 that was posted to the account sheets as being collected, only \$12,758 of cash was turned into the county for booking and bond/release fees. Therefore, \$2,972 was collected in cash and is missing, increasing the amount of missing and undeposited receipts for the fiscal year 2009.

Based on information gathered, the inmate booking and bond/release fees account sheets were maintained differently depending on the jail employee who worked on them. Therefore, we could not determine that total cash amount of booking and bond/release fees collected were turned over to the county for the fiscal year 2010.

The former Jailer should have ensured that all fees collected were paid to the county on a regular basis.

*Former County Jailer Melvin Rogers' Response: Once the new system was in place, this was corrected.*

2010-10 The Former Jailer Should Have Expended Commissary Profit For The Benefit Of The Prisoner

KRS 441.135(2) states all profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. During testing for jail commissary expenditures, we noted \$1,568 of expenditures paid from the jail commissary account were not for the benefit of the prisoners. These expenditures consisted of items that would be deemed regular jail fund expenditures and consisted of the following:

- Patches for deputy jailer's uniforms.
- Security camera in the medical unit.
- Mini blinds, curtains and window tint for the booking room and medical unit.
- 3 decorative six foot trees in the booking room, lobby and in the commissary room.
- Cleaning supplies.
- Computer cases for laptops used for the medical unit and normal jail business.

POWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2010  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-10 The Former Jailer Should Have Expended Commissary Profit For The Benefit Of The Prisoner (Continued)

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Since these items were jail fund expenditures and not jail canteen expenditures, a purchase order should have been received from the county judge's office and been included on the claims list for presentation to the fiscal court. The former Jailer circumvented the internal controls of the county by purchasing these items through the jail commissary. We recommend \$1,568 be reimbursed by the jail fund to the jail commissary profit account. Furthermore, the former Jailer should have ensured all expenditures from jail commissary profits were for the benefit of the prisoners and were in compliance with KRS 441.135(2).

*Former County Jailer Melvin Rogers' Response: No response.*

2010-11 The County Should Approve A Salary Schedule

The County did not approve and set the salaries for the County employees. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every County officer and employee. We recommend the County list all employees and each salary or hourly pay rate. The County should also include the starting pay rates for entry-level positions. The County should revise this list as increases are approved by the Fiscal Court.

*Former County Judge/Executive Darren Farmer's Response: Will advise new administration.*

2010-12 Part-Time Employees Should Not Receive Full-Time Benefits

According to the fiscal court's Policy and Procedures Manual, a regular part-time employee is defined as an employee who works less than thirty-five (35) hours a week, but on a regularly scheduled basis. We noted an employee that did not work an average of 35 hours a week; however, the employee was considered full-time and received full-time county benefits. This employee averaged 34.76 hours per week including leave time taken and holiday pay. However when leave time is removed, they would only average 29 hours. Furthermore, this employee was paid for total time worked per day including lunch breaks. KRS 337.355 states employers shall grant their employees a reasonable period for lunch. If the employee works during their lunch break there must be an agreement between the employer and employee in writing and signed by both on file. In addition, this employee took 6 vacation days for calendar year 2009 when 5 days are all that were allowed. We recommend the fiscal court review the Policy and Procedures Manual and determine if this employee is full-time and should be entitled to all benefits. The fiscal court should require supervisors or department heads to adhere to the guidelines set forth by the Policy and Procedure Manual and ensure full-time employees are working scheduled hours unless leave is available and are working more than thirty-five (35) hours per week.

*Former County Judge/Executive Darren Farmer's Response: Ok.*

POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

2010-13 The Former Jailer Failed To Maintain The Financial Activities Over The Operations Of The Jail

We noted several deficiencies in the financial activities of the jail, both pertaining to jail operations and the jail commissary. These deficiencies are detailed in comments 2010-01, 2010-06, 2010-08, 2010-09, 2010-10, 2010-16, 2010-17 and 2010-18 and include undeposited receipts of \$48,088.

The former Jailer did not maintain supporting documentation for funds received and funds disbursed for the months of September, October, November and December 2009. Furthermore, adequate receipts and disbursements ledgers were not maintained. In the absence of supporting documentation and complete and accurate ledgers, we could not determine if financial statements accurately represent the activity of the jail operations. These internal control deficiencies created an environment where potential material misstatements caused either by error or fraud will not be prevented or detected in a timely manner.

Improvement in the jail's financial practices and internal controls are needed to reduce risks associated with inmate monies and to ensure that proper information is submitted in a timely manner and is not misleading to users of the information.

The former Jailer did contract with a jail operations company for a computer system to maintain the jail collections and inmate monies. He did make improvements through the fiscal year to ensure receipts were collected and deposited. However, these improvements were not sufficient to overcome uncertainties related to the receipts and disbursements of the jail. Records were not complete to determine whether additional funds are due the county or to determine the jail operations are reported accurately in the financial statements. More improvements are necessary to ensure collections are accurate and inmate funds are accounted for properly. The former Jailer should have improved his internal control procedures related to financial reporting and been more diligent in the day-to-day operations of the jail.

*Former County Jailer Melvin Rogers' Response: I implemented procedures to improve controls as soon as I became aware of the issues.*

2010-14 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions

The County has a lack of segregation of duties over receipt, disbursement, and record-keeping functions. Typically when one person is in charge of these functions, strong compensating controls are needed. The treasurer posts receipts, disbursements, and prepares bank reconciliations and reports. Other office staff helps in completing these procedures however they were not documented by initialing supporting reports. We recommend the following procedures be implemented to strengthen internal controls over these various functions:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for. The person can document this by initialing the receipts ledgers and verifying the receipts are posted to the correct account codes.
- An independent person should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person by initialing the bank statement can document this.



POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES  
 (Continued)

2010-14 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions (Continued)

- An independent person should review the treasurer's bank reconciliations for accuracy and agree them to book balances for all funds. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice. Also, the employee should ensure the check numbers agree to the check register and vouchers and the expenditures are posted to the appropriate account code.

*Former County Judge/Executive Darren Farmer's Response: A new finance officer was hired. This will alleviate the deficiency.*

2010-15 The County Lacks Adequate Segregation Of Duties Over The Payroll Function

A lack of adequate segregation of duties exists over the payroll function. The payroll clerk enters the information necessary to process the payroll into the computer system, prepares the documentation, including the checks, to transfer monies from the county's funds into the payroll revolving account, posts the payroll expenditures to the appropriations ledger, reconciles the payroll bank account, prepares withholding reports, and pays withholdings.

Segregation of duties over the payroll functions of cash transfers, preparation of checks, disbursements posting and reconciliation of bank records to source documents, or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Because one employee handled all payroll functions and oversight was not provided, the following occurred:

- An annual compensation schedule was not approved by the fiscal court.
- Two employees received \$1,500 each and no taxes were withheld and it was not report to the appropriate agencies.
- An employee was not working the required 35 hours per week, to be considered full-time, per the fiscal court's Policy and Procedures Manual, however they received full-time county benefits including paid holidays, 5 vacation days and 12 sick days per year, and county paid single coverage health insurance.
- Office personnel did not know their sick leave balances.

POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES  
 (Continued)

2010-15 The County Lacks Adequate Segregation Of Duties Over The Payroll Function (Continued)

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, we recommend the fiscal court separate the duties of entering the information necessary to process the payroll into the computer system, preparing the documentation, including the checks, to transfer monies from the county's funds into the payroll revolving account, posting the payroll expenditures to the appropriations ledger and reconciling the payroll bank account. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

*Former County Judge/Executive Darren Farmer's Response: We will implement procedures to improve payroll.*

2010-16 The Former Jailer Should Have Improved Controls Over Collections For Jail Fees And Inmate Monies

During jail testing, we noted the following issues pertaining to the receipt function from July 1, 2009 through February 7, 2010:

- Receipts were not issued in numerical sequence.
- Receipts were not prepared for monies received through the mail.
- All receipts were not maintained for collections posted in Mugshot accounting software.
- Voided receipts were thrown away.
- Pre-numbered receipts and their corresponding daily checkouts for the months September 2009, October 2009, November 2009 and December 2009 were missing.
- Receipts were not issued in triplicate.
- Checkouts were not prepared daily. Most were prepared on a weekly basis.
- Deposits were not made on a daily basis. Most were made on a weekly basis.
- Checkouts prepared by the Mugshot computer system did not agree to the corresponding receipts compiled and deposit made.
- No receipts were maintained for cash collected for booking and bond/release fees only accounted for on log sheets.
- No daily checkouts were prepared for cash collected for booking and bond/release fees not accounted for in computer system.
- No receipts journal was maintained that accounted for all collections of the jail. Cash collected from inmates upon incarceration or release for booking and bond/release fees were only maintained on log sheet and not posted in the Mugshot accounting software.
- Cash was taken to the treasurer at various times for booking and bond/release fees and not accounted for on computer system.
- No documentation was maintained to determine if the reduction in the inmates account for purchases were accurate.

POWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2010  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES  
(Continued)

2010-16 The Former Jailer Should Have Improved Controls Over Collections For Jail Fees And  
Inmate Monies (Continued)

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On February 8, 2010, the jail contracted with Swanson Corporation for a computer system to improve the controls over collections. The jail now has an automatic machine that allows inmate families to put money into the inmate's account. Swanson maintains the machine and those funds are not handled by jail personnel. Jail personnel only handle collections during the booking process and received by mail. However we noted the following issues:

- Receipts were not issued for funds received through the mail.
- Receipts totals per day did not agree to the amount deposited and posted on the daily checkout.
- One employee opens the lock box, prepares deposit, posts to the computer system without any review.
- No documentation was maintained to determine if the reduction in the inmates account for purchases were accurate.

Due to the high volume of cash transactions, the Powell County Jail is extremely susceptible to fraud. As noted, there was \$48,088 of undeposited receipts in the jail commissary from April 1, 2009 through February 28, 2010. To help offset some of these risks, we recommend the jail implement the following procedures:

- Prenumbered receipts in triplicate should be written and maintained for all monies collected at the jail. Receipts should be used in numerical sequence. All void receipts should be maintained.
- Receipts should be batched daily. Total collections for the day should be agreed to total receipts.
- Receipts should be issued for all collections including those received through the mail.
- Checkouts should be prepared daily based on total receipts issued and agreed to the amount deposited.
- All monies collected should be deposited into the jail commissary account and accounted for on the receipts journal.
- When removing the inmate money from the lock box, two employees should be involved with opening the lock box, counting the money and ensuring all funds are deposited and posted properly.

*Former County Jailer Melvin Rogers' Response: Ok.*

POWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2010  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES  
(Continued)

2010-17 The Former Jailer Should Have Improved Internal Controls Over Disbursements

The jail did not maintain a disbursement journal for the jail commissary. They did maintain a listing of checks written for certain vendors through December 2009. However, this listing did not include all checks. We noted 13 out of the 29 expenditures tested did not have an invoice. Invoices for September, October, November and December 2009 were not available and were missing. The former Jailer should have ensured that all checks written are posted to a disbursements journal. Each check written must be posted to the proper category listed, such as inmate account refund, entertainment expenses, state payroll, other expenses and inventory. Checks should be issued for all expenditures. All invoices should be maintained. The disbursements journal totals per category should be used to complete the jail commissary summary and reconciliation. The former Jailer could have further improved controls by requiring dual signatures on checks or by having an independent individual review checks, invoices, and agreement to the disbursement ledgers.

*Former County Jailer Melvin Rogers' Response: Ledgers were started on July 1, 2010 for new fiscal year.*

2010-18 The Former Jailer Should Have Improved Controls Over The Jail Commissary

The jail commissary was maintained in one bank account with inmate funds until February 8, 2010. At that time, the county contracted with Swanson Corporation for inmates to purchase commissary items from and for a computer system to maintain inmate accounts. They opened a new bank account to maintain inmate funds and any inmate funds in the old account were transferred to the new account. Any profits earned from sales were to be transferred to the profit account regularly. The jail sells phone cards and other items in addition to the items sold by Swanson.

During audit procedures, we noted the following issues pertaining to the jail commissary account:

- No receipt and disbursement ledger was maintained to account for commissary profit and expenditures for supplies, educational and recreational purposes.
- No evidence of the preparation of bank reconciliations after November 2009.
- Expenditures of \$1,568 were made that were not for the benefit of the prisoners.
- The financial statements did not include any activity in the commissary after February 2010.
- Invoices for purchase of commissary items and expenditures of profit for the benefit of the prisoner were missing for September, October, November, and December 2009.
- The former jailer was unaware of the profit from sales left in the inmate account. These profits collected were not transferred to the profit account until January 2011.

The former Jailer should have ensured all records were maintained to account for the jail commissary properly. Furthermore, the former Jailer should have paid any profit earned from commissary sales to the profit account regularly.

*Former County Jailer Melvin Rogers' Response: No response.*

POWELL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2010  
 (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2010-19 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Allowable Costs For The CSEPP Program

Department: U.S. Department of Homeland Security  
 Agency: Kentucky Division Of Emergency Management  
 Federal Program: CFDA# 97.040 - Chemical Stockpile Emergency Preparedness Program  
 Compliance Area: Allowable Costs  
 Questioned Costs: \$846

The County should improve controls relating to allowable costs for CSEPP funding. The CSEPP coordinator compiles all invoices and prepares the form 1801 to request reimbursement from federal funds. During audit procedures, we noted \$846 of federal CSEPP funds reimbursed for unallowed costs. Invoices totaling \$307 were paid to a grocery store; however, we could not determine if these expenditures were for allowable costs due to the invoices not being itemized. Also, \$538 was paid to the CSEPP coordinator for a week of vacation leave not taken for calendar year 2009. Circular A-87 states the grantee should comply with local laws. The county ceased the practice of paying unused leave in January 2009. Therefore, this expenditure would also not be allowed. The county should ensure detailed invoices are maintained and all county policies are adhered to in order to ensure all CSEPP funds are used for allowed costs and activities. Because the county expended federal funds for unallowed costs, they have the potential of losing future federal funding. We recommend the CSEPP coordinator have the County Treasurer or Finance Officer review the invoices before reimbursements are requested to ensure compliance with county policies and that detailed invoices are maintained.

*Former County Judge/Executive Darren Farmer's Response: We will work with CSEPP Director to correct this issue.*

2010-20 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP Program

Department: U.S. Department of Homeland Security  
 Agency: Kentucky Division Of Emergency Management  
 Federal Program: CFDA# 97.040 - Chemical Stockpile Emergency Preparedness Program  
 Compliance Area: Cash Management  
 Questioned Costs: \$10,383

The County should improve controls relating to cash management for CSEPP funding. The CSEPP coordinator compiles all invoices and prepares the form 1801 to request reimbursement from CSEPP funds. He also maintains copies of all the 1801 forms (cash draw-down or reimbursement forms) with the invoices separated by the grant year. During the audit procedures, we agreed a sample of expenditures to the 1801 forms and noted \$10,383 of expenditures were reimbursed twice by federal funds and \$3,853 of expenditures were not included on an 1801 form for reimbursement. Upon further review we noted an additional two 1801 forms totaling \$8,157 that had not been reimbursed as well. We recommend the CSEPP coordinator ensure all allowable expenditures are included on the 1801 forms for reimbursement. He should also obtain a monthly check listing from the county treasurer and note each item as it is included on the 1801 form and again when it is reimbursed. This would ensure that items are only included on the form once and reimbursements are obtained. Without improvement to cash management controls, the county could jeopardize future federal funding. We also recommend the CSEPP coordinator work with other county employees such as the treasurer or finance officer to ensure 1801 forms include the invoices only once.

POWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2010  
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT  
(Continued)

2010-20 The County Should Improve Controls Relating To The Single Audit Compliance  
Requirements Of Cash Management For The CSEPP Program (Continued)

*Former County Judge/Executive Darren Farmer's Response: We will work with CSEPP Director to resolve this issue.*

2010-21 The County Should Improve Controls Relating To The Single Audit Compliance  
Requirements Of Procurement, Suspension, And Debarment For The CSEPP Program And  
Should Comply With KRS 424.260 And Bid All Expenditures Of \$20,000 And Over

Department: U.S. Department of Homeland Security  
Agency: Kentucky Division Of Emergency Management  
Federal Program: CFDA# 97.040 - Chemical Stockpile Emergency Preparedness Program  
Compliance Area: Procurement, Suspension, and Debarment  
Questioned Costs: \$24,604

The county purchased two electronic stretchers for the CSEPP fund for fiscal year 2010. These expenditures totaled \$24,604. The stretchers were not advertised for bid. The county planned to only purchase one stretcher for \$12,302, but instead purchased two when they received the price quote. KRS 424.260 states when the county makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. We recommend the county comply with KRS 424.260 and advertise for bids for purchases of more than \$20,000.

*Former County Judge/Executive Darren Farmer's Response: We will work with CSEPP Director to resolve these problems.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**POWELL COUNTY FISCAL COURT**

**For The Year Ended  
June 30, 2010**



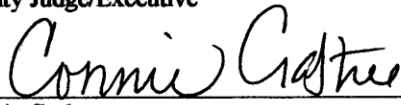


**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**POWELL COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2010**

The Powell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
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Darren Farmer  
County Judge/Executive

  
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Connie Crabtree  
County Treasurer

